

Message Text

SECRET

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64

ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
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R 310940Z OCT 75

FM AMEMBASSY SINGAPORE

TO SECSTATE WASHDC 3851

INFO AMEMBASSY KUALA LUMPUR

S E C R E T SECTION 1 OF 2 SINGAPORE 4719

EXDIS

DEPT ALSO PASS TO CINCPAC

E.O. 11652: GDS

TAGS: PFOR, MASS, SN

SUBJECT: GOS INTEREST IN OFFSETTING ARRANGEMENT ON MILITARY SALES

REFS: (A) SINGAPORE 4609; (B) STATE 250586; (C) SINGAPORE 4717

SUMMARY. ACTING PERMSEC MINDEF, TAY SEOW HUAH, HAS CALLED IN DCM TO ADVISE THAT GOS LEADERSHIP IS CONCERNED OVER MOUNTING COST OF MILITARY EQUIPMENT PURCHASES AND IS INTERESTED IN EXPLORING WHETHER U.S. WOULD BE WILLING TO UNDERTAKE SOME KIND OF "OFF-SETTING" ARRANGEMENT WHICH WOULD REDUCE FUTURE FINANCIAL BURDEN. HE SUGGESTED POSSIBILITY OF INCREASING U.S. NAVY SHIP REPAIR WORK IN SINGAPORE. I ASSUME ANY OFFSETTING ARRANGEMENT WITH A COUNTRY IN AS STRONG A FOREIGN EXCHANGE POSITION AS SINGAPORE IS A NON-STARTER. IF DEPARTMENT CONCURS, I PROPOSE TO PROVIDE MINISTER GOH WITH DATA ON THE CONSIDERABLE ECONOMIC BENEFIT SINGAPORE ALREADY RECEIVES FROM OUR CURRENT MILITARY ACTIVITIES HERE, ASSURE HIM THAT WE INTEND TO CONTINUE TO SEND NAVY SHIPS TO SINGAPORE FOR REPAIR WORK AS REQUIRED AND MAINTAIN CURRENT LEVEL OF SHIP VISITS AND POINT OUT GENTLY THAT THERE IS NO LIKE-LIHOOD THAT WASHINGTON WILL APPROVE ANY OFFSETTING ARRANGEMENT. END SUMMARY.

1. DCM ACCOMPANIED BY DATT CALLED ON ACTING PERMANENT SECRETARY, MINDEF, TAY SEOW HUAH, OCTOBER 30 IN RESPONSE TO HIS REQUEST FOR
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MEETING ON MILITARY SALES. TAY REFERRED TO U.S. DECISION TO

APPROVE SALE OF EQUIPMENT PACKAGE AND AMBASSADOR'S CONVERSATION WITH DR. GOH (REF A). HE THEN INQUIRED WHETHER ANY FMS CREDIT WOULD BE AVAILABLE. DCM REPLIED THAT WASHINGTON APPROVAL WAS BASED ON ASSUMPTION THAT SALES PROGRAM WOULD BE CARRIED OUT THROUGH A COMBINATION OF FMS CASH OR COMMERCIAL CASH PURCHASES. DATT POINTED OUT THAT EVEN IF FMS CREDIT WERE AVAILABLE IT WOULD REPRESENT ONLY SMALL SAVINGS, PERHAPS ONLY ONE PERCENT, SINCE U.S. WOULD HAVE TO CHARGE THE GOS THE COST OF BORROWING MONEY IN THE U.S. DCM NOTED NEED FOR EVENTUAL CONGRESSIONAL APPROVAL OF ANY FMS CREDIT PROGRAM, AND ASKED WHETHER GOS THOUGHT IT WOULD BE IN ITS INTEREST TO BECOME "AID" RECIPIENT FOR SAKE OF SUCH MARGINAL SAVING.

2. TAY ACKNOWLEDGED THESE POINTS AND DID NOT PRESS FOR CREDIT, BUT NOTED COST OF THIS PACKAGE AND ADDITIONAL EQUIPMENT GOS WOULD PROBABLY HAVE TO ACQUIRE DURING THE NEXT SEVERAL YEARS WOULD IMPOSE AN INCREASINGLY HEAVY BURDEN ON THE BUDGET. THEREFORE, THE PRIME MINISTER AND MINISTER GOH WERE INTERESTED IN EXPLORING WHETHER THE U.S. WOULD BE WILLING TO UNDERTAKE ANY "OFFSETTING" ARRANGEMENT WHICH WOULD REDUCE THE TOTAL BURDEN. HE SAID SUCH AN ARRANGEMENT WOULD BE STUDIED BY THE GOS IN MUCH GREATER DETAIL AND THAT GOS WOULD TAKE IT UP WITH US AGAIN AS SOON AS IT HAD SOMETHING MORE CONCRETE TO PROPOSE. HE STRESSED THAT GOS WAS NOT SUGGESTING ANY ARRANGEMENT WHICH WOULD INTERFERE WITH NORMAL COMMERCIAL TRANSACTIONS, AND SPECULATED THAT POSSIBLY THE U.S. NAVY MIGHT SEND MORE SHIPS TO BE REPAIRED IN SINGAPORE.

3. DCM MADE FOLLOWING COMMENTS: (A) EMBASSY WOULD REPORT SUGGESTION TO WASHINGTON; (B) SUGGESTION APPEARED RATHER UNUSUAL AND UNPRECEDENTED SINCE WE DID NOT KNOW OF ANY ARRANGEMENTS WHICH USG HAD WITH OTHER GOVERNMENTS IN EAST ASIA TO OFFSET THEIR COST OF PURCHASES OF MILITARY EQUIPMENT FROM THE UNITED STATES; AND (C) THE U.S. HAD NOT URGED GOS TO BUY THIS MILITARY EQUIPMENT, BUT HAD ONLY RESPONDED TO A GOS REQUEST. TAY ACCEPTED THESE POINTS, BUT REITERATED THAT GOS WAS NOT SUGGESTING THAT OFFSETTING BE ACCOMPLISHED THROUGH COMMERCIAL PURCHASES.

4. DATT POINTED OUT THAT IN ADDITION TO PRESENT LEVEL OF U.S. NAVY REPAIR WORK IN SINGAPORE, EXPENDITURES BY VISITING U.S. NAVY SEAMEN BROUGHT MANY MILLION OF U.S. DOLLARS INTO THE SIN-
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GAPORE ECONOMY. DCM ASKED TAY WHETHER GOS WANTED SOME TYPE OF FORMAL AGREEMENT OR WAS MERELY SUGGESTING THAT U.S. GOVERNMENT CHANNEL MORE SHIP REPAIRS INTO SINGAPORE WHENEVER POSSIBLE. TAY THOUGHT THAT GOS LEADERS WANTED SOMETHING MORE THAN A POSSIBILITY, AND IMPLIED THAT THEY WERE THINKING OF SOME KIND OF UNDERSTANDING RATHER THAN A FORMAL AGREEMENT. DCM ASKED IF GOS EXPECTED EARLY USG REACTION TO PROPOSAL. TAY REPLIED THAT GOS WOULD BE CONTENT AT THIS STAGE TO HAVE EMBASSY REPORT HIS A-

PPROACH AND INDICATED MATTER WOULD BE TAKEN UP AGAIN AFTER IT HAD BEEN STAFFED OUT IN GREATER DETAIL. IN RESPONSE TO DIRECT QUESTION AS TO JUST HOW SERIOUS THE FINANCIAL BURDEN OF ARMS ACQUISITION WAS BECOMING, TAY REPLIED THAT THE BURDEN WAS NOT YET SEVERE AND THAT GOS FINANCES WERE IN GOOD SHAPE. HOWEVER, THE GOVERNMENT FELT IT HAD TO EXAMINE THE BUDGETARY IMPLICATIONS OF BOTH CURRENT AND FUTURE ARMS PURCHASES AND WAYS IN WHICH THIS BURDEN MIGHT BE ALLEVIATED. HE NOTED THAT RECENT STUDY SHOWED THAT 60 PERCENT OF SINGAPORE'S DEFENSE EXPENDITURES WERE SPENT OFFSHORE IN HARD CURRENCIES.
HOLDRIDGE

NOTE BY OCT: NOT PASSED CINCPAC.

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
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S E C R E T SECTION 2 OF 2 SINGAPORE 4719

EXDIS

5. COMMENT. GOS CONTINUED ARMS PURCHASES IS OBVIOUSLY GENERATING GROWING CONCERN AMONG TOP SINGAPORE LEADERSHIP RE IMPACT ON GOS BUDGET AND ABILITY OF THE ECONOMY TO SUSTAIN SUCH PURCHASES OVER AN EXTENDED PERIOD OF TIME. SIMPLEST AND PROBABLY MOST DESIRABLE SOLUTION FROM OUR POINT OF VIEW WOULD BE FOR GOS TO CURTAIL OR STRETCH OUT ITS EQUIPMENT PURCHASES.

6. HOWEVER, IT IS CLEAR FROM MY LATEST MEETING WITH PM LEE THAT HE REMAINS PROFOUNDLY CONCERNED OVER SECURITY IMPLICATIONS OF COMMUNIST TAKE-OVER OF INDOCHINA AND FUTURE PROSPECTS FOR GROWTH OF AREA (REF C), AND THAT GOS INTEREST IN BUILDING CAPABILITY OF ITS ARMED FORCES AND ITS CONCERN OVER FUTURE FINANCING OF EQUIPMENT ARE RELATED TO THESE CONCERNS. FROM TAY'S OWN REMARKS, AND EMBASSY'S ANALYSIS IT WOULD SEEM THAT GOS FINANCIAL SITUATION IS BY NO MEANS BLEAK. GOS CURRENTLY HAS FOREIGN EXCHANGE RESER-

VES OF APPROXIMATELY US\$ 2.9 BILLION AND ONLY US\$ 205 MILLION IN OUTSTANDING FOREIGN DEBT. FURTHERMORE, ITS FOREIGN EXCHANGE RESERVES ROSE AT ANNUAL RATE OF 11 PERCENT IN FIRST SIX MONTHS OF 1975, EVEN THOUGH TRADE ACCOUNT WAS BEGINNING TO DETERIORATE. IN VIEW OF THIS SITUATION, GOS SHOULD HAVE NO DIFFICULTY IN FINANCING CURRENT PACKAGE. IF PROSPECT OF FUTURE FINANCIAL BURDEN CAUSES GOS TO SLOW DOWN LATER PURCHASES, IT WOULD PROBABLY BE ALL TO THE GOOD. THERE IS SOME QUESTION AS TO RATE AT WHICH GOS CAN ABSORB LARGE AMOUNTS OF NEW HARDWARE AND STRETCH OUT OF PURCHASES MIGHT ALSO AVOID ONE POSSIBLE AREA OF INCREASED TENSION WITH MALAYSIA.

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7. WE ASSUME THAT ANY POSSIBILITY OF ESTABLISHING AN OFFSETTING ARRANGEMENT WITH A COUNTRY AS WELL-HEELED FINANCIALLY AS SINGAPORE IS A NON-STARTER AND COULD CAUSE COMPLICATIONS ON THE HILL. I AM HAVING OUR DAO PREPARE A PAPER SETTING FORTH IN FULL DETAIL THE ECONOMIC BENEFITS WHICH OUR MILITARY ACTIVITY IN SINGAPORE ALREADY BRINGS TO THE ECONOMY. IN THE PAST THREE YEARS THIS HAS AVERAGED APPROXIMATELY NINE MILLION DOLLARS PER YEAR (NOT INCLUDING PERSONAL EXPENDITURES OF VISITING U.S. MILITARY PERSONNEL).

8. BEFORE GOS BECOMES TOO FIRMLY WEEDED TO "OFFSET" PROPOSAL, I BELIEVE BEST COURSE OF ACTION WOULD BE FOR ME TO ALLUDE TO TAY'S APPROACH IN MY NEXT CONVERSATION WITH DR. GOH, HAND HIM A COPY OF THIS PAPER, REFER TO SINGAPORE'S EXCELLENT FINANCIAL POSITION AND GENTLY EXPLAIN THAT WHILE WE WILL OF COURSE CONTINUE TO SEND NAVY SHIPS INTO SINGAPORE FOR REPAIR AND MAINTAIN SHIP VISITS TO THE PORTS OF THE ISLAND, THAT ESTABLISHMENT OF OFFSETTING ARRANGEMENT WOULD NOT BE APPROVED IN WASHINGTON.

9. REQUEST DEPARTMENT CONCURRENT AND/OR COMMENT.
HOLDRIDGE

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